

States wager on racetrack slots

By Pamela M. Prah

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Adding slots to racetracks is the dealer's choice in statehouses looking for more revenue.

States are betting that Americans' love for gambling will help them beat a faltering economy as new racetrack casinos or "racinos" open this year in Indiana, Pennsylvania and New York. Maryland and Kansas are also working toward cashing in on the one-armed bandits that bankroll important state programs from Maine to Florida.

"Racinos are the best way to go" for states looking to strictly boost revenue, rather than other gambling proposals that also aim to create jobs, said Clyde W. Barrow, director of the [Center for Policy Analysis](#) at the University of Massachusetts Dartmouth.

Racetrack casinos are seen as an easier sell to voters than casinos, because the proposals generally don't involve building new facilities, but simply adding slot machines to tracks or other venues where gambling already is sanctioned. In some cases, adding slots to racetracks is pitched as a way to help bolster a state's own racing industry.

Also, higher taxes are levied on slots at racetracks than at casinos, making racinos more desirable to cash-strapped states.

Racinos brought \$2.2 billion in 2007 to state and local governments in the 11 states that allow them, a 54.6-percent increase from the previous year, according to the American Gaming Association. Commercial casinos, excluding American Indian casinos, brought in more than \$5 billion to 12 state and localities' coffers over the same period.

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And more racinos are in the offing as states try to keep their gamblers home rather than losing their millions of dollars to out-of-state casinos and tracks:

- Indiana, which already has 11 commercial casinos, will open two horse tracks in downstate this summer that will feature 2,000 slot machines and compete against neighboring Michigan and Illinois, both of which have casinos but no racinos.
- Pennsylvania, which already has 15,000 slots at its six racinos and one casino, expects to add another 1,200 slots this year. When the gambling law is fully implemented, Pennsylvania will have 61,000 slots, second only to Las Vegas. West Virginia in 2007 legalized poker and blackjack at its racinos to better compete with Pennsylvania, which doesn't have table games.
- Maryland voters this November will get to settle a long-running feud in Annapolis over whether to legalize 15,000 slots at tracks to bolster the state's horse-racing industry. The state figures Marylanders spend up to \$650 million gambling in nearby Delaware, West Virginia and Pennsylvania.

- New York, which sees its residents gambling in Jersey's Atlantic City and now Pennsylvania, plans to allow 4,500 video slot machines at the Aqueduct thoroughbred track in Queens, which would dwarf the total of 13,000 slots at eight other racetracks in the Empire state.
- Kansas is still waiting for the state's highest court to rule whether its 2007 gambling law is legal. It would bring 2,200 slot machines to two racetracks and an unlimited number of slots in four commercial casinos in the country's heartland to compete with commercial gambling operations in Iowa, Missouri and Colorado.
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Sources : American Gaming Association and

The Rev. Richard McGowan, a Boston College professor and author of the 2008 book, "The Gambling Debate," likens the current competition among states for more slots and more gambling profits to states' rush in past years to get lotteries, which all but eight states now have. "States are really competing for this [gambling] revenue," he said.

Gambling is a bona fide business in all but two states for a simple reason: It's an easy way to get dollars flowing into the states without raising taxes. Thirty years ago, gamblers had to venture to Las Vegas or Atlantic City to bet legally. Today, every state except Hawaii and Utah has some form of gambling.

The racino slice of the overall commercial gambling pie is growing faster than even American Indian gaming, which has been outpacing commercial casinos in recent years, according to Alan Meister, an

economist and consultant with Analysis Group. Meister figures the growth of racinos was 1.7 times greater than that of Indian gaming overall and 2.5 times greater than commercial casinos in 2006, the most recent year available for that information.

American Indian gaming generated seven times the total revenue that racinos did in 2006, but the states' share that year from the racinos, taxed at a higher rate, surpassed what they collected from the American Indian operations. In the nearly 30 states with tribal casinos, states and localities took in more than \$1 billion from fees and revenue-sharing agreements in 2006 while racinos provided 11 states and localities with \$1.4 billion in taxes that year

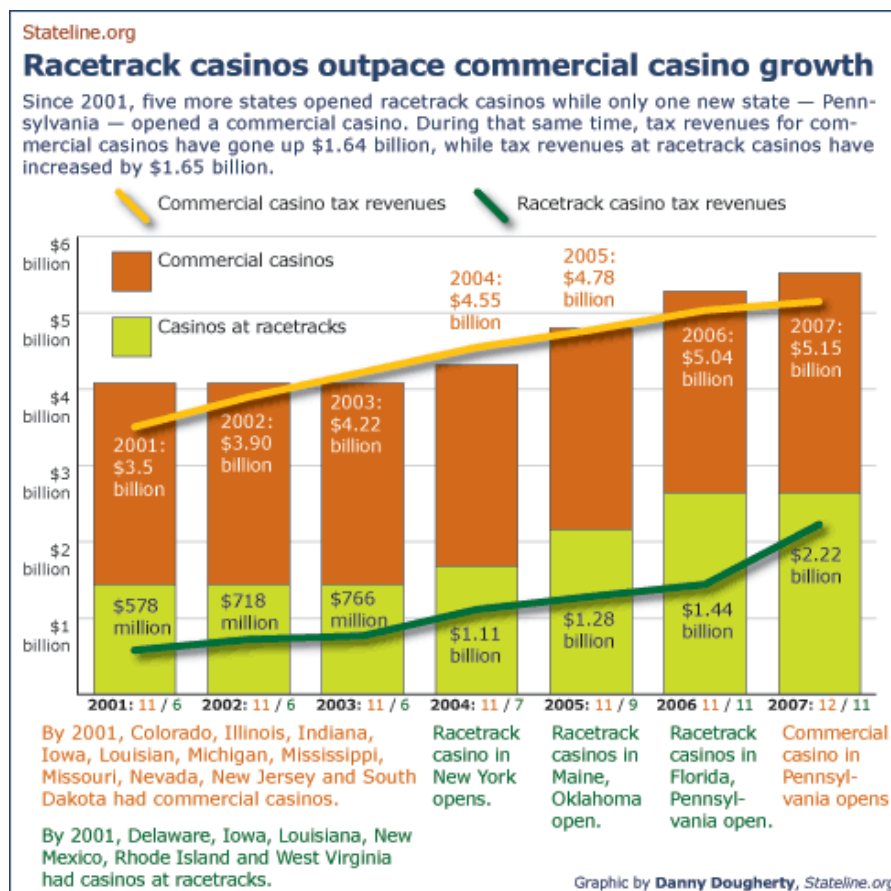
Taxes are typically collected at much higher rates at racetracks than commercial casinos. Delaware, New York, Rhode Island and West Virginia don't have traditional tax rates, because these states actually own the slots equipment. They give back a certain percentage to the operator — from a low 27 percent in Rhode Island to 48 percent in Delaware. Illinois slaps the highest tax among those states with commercial casinos, with a graduated tax rate from 15 percent to 50 percent of gross gaming revenue.

McGowan has estimated that 17 states generate more than 5 percent of their budget from racinos, casinos and lotteries. But in some states, gambling contributes much more — 12 percent in West Virginia, which has racinos, and 11 percent in Louisiana, which has both casinos and racinos, according to McGowan.

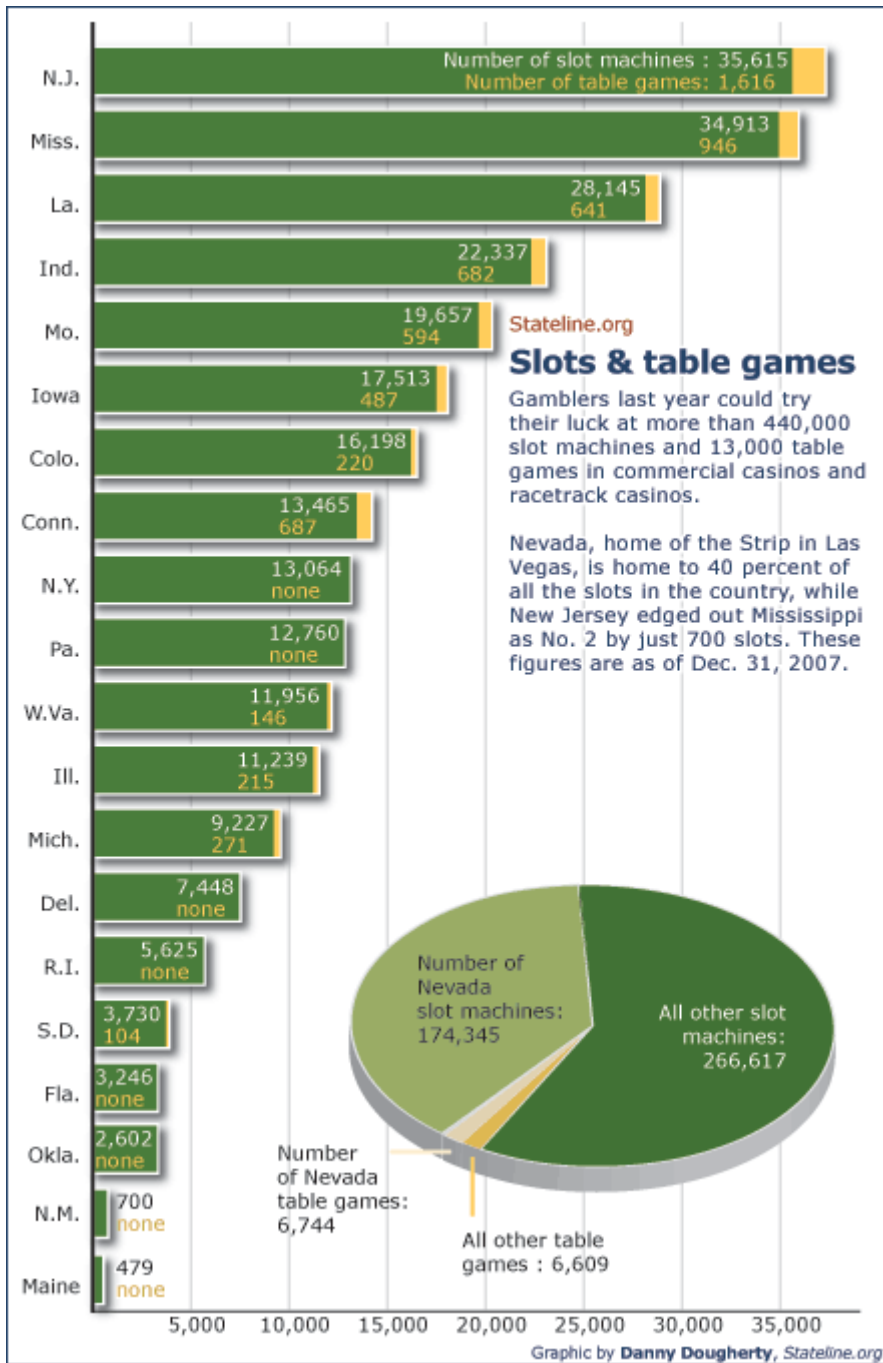
The slowing economy and high gas prices, however, are taking a hit at some casinos, once considered recession-proof. Overall, revenues are down at casinos in Las Vegas, Atlantic City, St. Louis and Mississippi, compared to a year ago. Racinos are raking in the dough in Pennsylvania, New York and Maine, but all three racinos in Delaware have seen revenue declines, primarily because of new competition from Pennsylvania.

But many experts say states can still enter the gambling fray and claim a hefty chunk of revenue. "In very few places have we reached the saturation point," said Barrow, who estimates that the New England gaming market still has about \$2 billion in untapped demand.

But whether that should be pursued and state-sanctioned gambling in general are not without controversy. Opponents argue that any form of gambling begets crime, gambling addictions and other social ills that can end up costing the state more in the long run.



Source: The American Gaming Association



Source: Derris C. Newman, The Innovation Group for Stateline.org

would allow slots at racetracks. Another option on the table is to let voters decide whether they want casinos.

In Kentucky, state lawmakers were deeply divided over Gov. Steve Beshear's (D) call to let voters decide whether to allow a limited number of casinos in the state. Lawmakers adjourned without taking action.

A *Lexington Herald-Leader* poll in May found that 81 percent disagreed with the General Assembly's decision, but half said they would have voted against the measure if it had made it on the ballot. The casino question was a centerpiece issue in Beshear's run for governor in 2007, when he upset Republican incumbent Gov. Ernie Fletcher.

In Massachusetts, House Speaker Sal DiMasi (D) said he received death threats for opposing Gov. Deval Patrick's (D) plan to legalize three casinos, which Patrick figured could generate \$2 billion in economic activity, including \$400 million a year for state coffers, and 20,000 jobs.

While the governor's plan was killed in the House, there is still talk of possibly moving a slimmed-down gambling proposal that